MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BME1014 – INTRODUCTORY MICROECONOMICS

(All sections / Groups)

13 OCTOBER 2018
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 2 pages with 4 Questions only.

2. Attempt ALL questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a) Explain the difference between productivity efficiency and allocative efficiency. (9 marks)

b) Describe what happens to average fixed cost, average variable cost, average total cost, and marginal cost curves when:

i) There is an increase in fixed cost. (8 marks)

ii) There is an increase in variable cost. (8 marks)

(Total: 25 marks)

QUESTION 2

a) How firms in monopolistic competitive markets achieve profits maximization? And why firms in monopolistic markets set prices differently from firms in perfectly competitive market? (10 marks)

b) Mark and Bark were arrested for robbing a bank in their town area and each of them will serve 3 years in prison. The police placed each one of them in different cell for interrogation to prevent any communication between them. The police told the prisoners a) if both Mark and Bark confess to the robbery each will spend 3 years in prison b) if Mark confess and Bark does not; Mark will serve 1 year in prison while Bark will serve 10 years in prison c) if Bark confess and Mark does not; Bark will serve 1 year in prison while Mark will serve 10 years in prison and d) if both mark and Bark don't confess each will serve 2 years in prison.

i) Draw the payoff Matrix for the above situation. (7 marks)

ii) What is the dominated strategy for Mark? (4 marks)

iii) What is the best option that both Mark and Bark have? (4 marks)

(Total: 25 marks)

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QUESTION 3

a) Discuss economic surplus and economic efficiency. (10 marks)

b) Lim left his job in Johor where she earned RM100,000 a year. He cashed in RM50,000 in corporate bonds that earned 10% interest annually to purchase a bus. Lim has decided to buy the bus and set up a commuter service between Melaka and Penang. There are 1000 people who will pay RM500 a year each for the commuter service; RM200 from each person goes for maintenance, insurance and depreciation.

i) What is the accounting profit of Lim? (7 marks)

ii) What is the pure economic profit (loss) of Lim? (8 marks)

(Total: 25 marks)

QUESTION 4

a) Briefly describe the following economics concepts:

i) Isoquant curve (5 marks)
ii) Isocost line (5 marks)
iii) Marginal rate of technical substitution (5 marks)

b) Assume that apple is a normal good. Use substitution effect and income effect to discuss the change in demand for apple when the price of apple rises. (10 marks)

(Total: 25 marks)

End of Paper